DOCUMENT RESUME

ED 215 079 CE 031 143

TITLE	The Relationship of Regional Economic Growth Patterns to Education Funding Alternatives. A Summary. Occasional Papers in Educational Policy Analysis. Paper No. 3.
INSTITUTION	Southeastern Regional Council for Educational Improvement, Research Triangle Park, N.C.
PUB DATE	Oct 81
NOTE	14p.; For a related document, see ED 210 775.
AVAILABLE FROM	Southeastern Regional Council for Educational Improvement, P.O. Box 12746, Research Triangle Park, NC 27709 ($1.75; 20% discount for five or more).
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Comparative Analysis; Demography; Differences; *Economic Development; Economic Factors; *Educational Finance; Employment Patterns; *Federal Aid; Financial Needs; *Financial Support; *Geographic Regions; Grants; Income; Needs Assessment; Position Papers; Public Policy; *Regional Characteristics; Trend Analysis
IDENTIFIERS	*Funding Formulas; United States (North); United States (South); United States (West)

ABSTRACT

Claiming that current federal educational funding formulas favor those same Sunbelt states that have recently undergone impressive economic growth, some individuals are calling for removal of per capita income factors from funding formulas in order to direct funds away from the Sunbelt and towards the northern or "Frostbelt" states. Examination of regional demographic trends, employment patterns, and indicators of economic well-being reveals that such a policy change would be a mistake for a number of reasons, including the following: (1) census data do not support the idea of a massive population migration into the Sunbelt states; (2) the idea of economic decline in the North, coupled with widespread prosperity in the South, is a myth that overlooks gains in per capita income and employment in every state and that ignores the continued deficiency of per capita income levels in the South; (3) federal spending policies are not biased toward the Sunbelt; and (4) elimination of income adjustments from funding formulas would not favor any one geographic region but would instead result in losses to numerous states in every region. (The complete version of the monograph covered in this summary is available separately--see note.) (MN)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED215079

OCCASIONAL PAPERS IN EDUCATIONAL POLICY ANALYSIS

Paper No. 3

The Relationship of Regional Economic Growth Patterns to Education Funding Alternatives A Summary

October 1981

CE031143

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Charles J. Law, Jr.

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Southeastern Regional Council for Educational Improvement
P. O. Box 12746, 200 Park Offices, Suite 111
Research Triangle Park, North Carolina 27709
(919) 549-8216

TABLE OF CONTENTS

Introduction 1

Demographic Trends 1

Employment Patterns 2

Indicators of Economic Well-Being 3

Economic Trends and the Flow of Federal Funds 5

Three Cases Involving Education Funds 6

Conclusions 7

Notes 9

Bibliography 10

The Relationship of Regional Economic Growth Patterns to Education Funding Alternatives

Recent impressive growth in the "Sunbelt" states[1] across the South and West has been a focus of public attention, and, to some, a cause for alarm. For, in some quarters, the improved economic performance of the Sunbelt--a historically depressed region--has been interpreted as a threat to the northern "Frostbelt" states. Regional economic growth in the United States has been viewed by these alarmists as a zero-sum game: a situation in which one region can gain only if another loses.

That interpretation of regional economic trends is the basis of arguments for important policy changes affecting the distribution of federal funds. Proponents claim that present policies bias the distribution of funds toward the Sunbelt states. By removing per capita income factors from the formulas, the argument goes, more federal funds would be channeled from the now prosperous Sunbelt to the declining northern states.

The impact of such a change in federal funding policies would be significant, particularly in education, which relies heavily on mathematical distribution formulas using economic and demographic variables.

The irony is that such a change would also be ineffective. It would not shift federal dollars from the less to the more needy states; it would not even shift federal funds consistently from South to North. States in all regions would "win" and "lose" dollars, and not necessarily on the basis of need.

Fundamentally, the "Sunbelt versus Frostbelt" theory is a myth. Sunbelt growth has not meant Frostbelt decline; regional economic growth is not a zero-sum game.

That is not to say that there have not been significant changes in demographic and economic patterns, and major growth in the Sunbelt states in the last two decades. But those who see a Sunbelt-Frostbelt conflict have ignored or glossed over the critical distinction between relative and absolute changes in economic variables, as well as individual state differences within regions.

A careful examination of these variables will dispel the myths about the Sunbelt-Frostbelt conflict, and yield a better understanding of United States economic trends, and a better basis for evaluating federal funding policies.

Demographic Trends

Some commentaries on recent economic trends have falsely implied that Sunbelt growth will leave other parts of the nation depopulated. In reality, despite the growth of southern and western states, the greatest concentration of population is still in the northern and northeastern regions.

That is not to deny important demographic changes over the past two decades. One such shift marks the end of a trend which dominated the first half of the century--the strong pattern of net migration from South to North. During the 1960s and 1970s, South to North migration slowed, and the rate of North to South migration increased, resulting in higher than average population growth rates in the Sunbelt, and lower than average rates in the Frostbelt.

What is overlooked, however, by those claiming a Sunbelt-Frostbelt conflict, is that the net in-migration to the South is as much the result of a slowing of the South to North population flow as it is the result of an increase in the North to South flow. Furthermore, migration is not the only factor affecting population growth rates. In the last decade, the rate of natural increase has been almost twice as high in the South as in the North, and accounts for half the population growth.

The demographic pattern in the United States is not one in which total population in some regions is falling because of vast migrations to other regions. The fact is, that over the period 1960-1980, every state in the United States registered population gains. (From 1970-1980, only New York did not register a gain; it lost 3.7 percent of its population.)

Simple comparison of state or regional population growth rates is a poor guide to national demographic trends. A better guide is distribution of population. Census data show a clear trend of redistribution of the United States population from the northeastern regions toward the southern and western regions; but the trend is neither precipitous nor alarming. The percentage of the total United States population living in the East North Central region fell from 20.2 percent in 1970 to 18.4 percent in 1980. The share of the population living in the very fast growing South Atlantic region rose from 14.5 percent in 1970 to 16.3 percent in 1980.

Employment Patterns

The shifts in relative population across regions are sometimes identified with relative economic well-being for the regions. But a declining relative population share does not necessarily have the same economic effects as an absolute decline in the total population. For example, total employment grew in every state in the 1970s. Even New York, which was the only state to experience an absolute decline in population, had a small gain in total jobs during the 1970-1980 period.

While total employment in the Frostbelt regions increased from 1970-1980, there were significant changes in the pattern of employment in these areas. Total manufacturing employment fell in the northeastern states during the 1970s--a source of acute economic disruption for some local communities. What is also true--and critically important to an accurate interpretation of economic trends--is that, for every state in the Northeast, the expansion of job opportunities in the service, trade, financial, and government sectors more than offset the fall in manufacturing jobs.

The relative shift in employment out of manufacturing is a nationwide

trend, most noticeable in the economically mature areas of the Northeast. The southern region and some western states continued to show significant growth in manufacturing, because they are still catching up to the level of economic development already achieved elsewhere. Manufacturing levels in the Sunbelt may peak and begin declining by the end of the century.

A final myth about employment should be dispelled. The notion that many northeastern firms are closing shop and moving South and West is false. In the northeastern industrial states, 98.5 percent of the total job losses were because of the contraction or death of a firm. Only 1.5 percent of job losses resulted from migration of firms to other states; and only 1.2 percent of new jobs in the Sunbelt were because of in-migration of firms.

Indicators of Economic Well-Being

The most directly applicable and widely available indicator of economic well-being for states and regions within the United States is personal income. Other indicators include employment, poverty level population, and employment/population ratios. Each has particular importance when analyzing federal funding formulas.

There are wide variations in per capita personal income across the states, and these differences do follow distinctly regional patterns. The lowest per capita personal income levels are found in Mississippi ($6,508) and Arkansas ($7,180); the highest in Alaska ($12,406) and Connecticut ($11,445).

However, a look at recent trends in per capita personal income on a regional basis is also revealing. In no case has a regional growth rate been more than one and a half percentage points below the national average, and the overall range of regional average growth rates is remarkably narrow. (The lowest average annual growth rate was 12.9 percent for the Mideast region; the highest was 16.7 percent for the Southwest region.) More important, for every region and for every state, the 1970-1980 growth of per capita personal income exceeded the 1970-1980 inflation rate, meaning that every state experienced an increase in the real value of per capita personal income.

Another measure of economic well-being is the ratio of employment to total population. If a region is experiencing economic decline, one would expect to find the employment population ratio to decline. Over the period of 1976-1979, however, the employment/population ratio rose for every region, indicating that employment opportunities were growing faster than population. This trend is a sign of economic health for a region. Furthermore, the employment/population ratio data for each state reveal the same trend: every state except Hawaii registered an increase.

The idea of a Frostbelt versus Sunbelt economic conflict is based on the false premise that economic growth is a zero-sum game in which any region's economic gain is necessarily at the expense of some other region. The economic facts indicate otherwise. The entire United States, including every region, experienced real economic growth during the past decade.

At the same time, it is once again important to make the distinction between relative and absolute growth. For the southeastern region as a whole, growth in per capita personal income averaged 15.3 percent annually during the past decade. Although this was the third highest growth rate among regions in the United States, regional per capita personal income in 1980 remained the lowest in the nation at 86 percent of the national average (ranging from 69 percent of the national average in Mississippi to 100 percent of the national average in Virginia).

Differences within regions are also important. The surge of economic growth and improvement of economic well-being in the Sunbelt has not had a uniform impact on all its states. The focal points of growth have been Texas, Florida, Louisiana, and Virginia. States like Mississippi, Arkansas, and Alabama have experienced some improvement, but remain far behind the nation in terms of personal income and other measures of economic performance.

Furthermore, the differences in state per capita personal income that are evident today are likely to remain significant far into the future. While regional averages for per capita personal income appear to be converging, significant differences in individual state per capita income amounts are likely to remain well into the next century.

Other measures of economic well-being reinforce the implication of per capita income data: many states in the South and West remain below the nation as a whole, and significantly below the northern industrial states in terms of economic development and prosperity--despite recent growth. For example:

- According to 1975 data, the lowest relative concentration of poverty population was in the Northeast region, where only 8.9 percent of the population lived below the poverty level. The South had the highest relative poverty concentration with 15.3 percent of the total population living below the poverty line.

- Forty-three percent of all persons living below the official poverty level were residing in southern states.

In summary, while the South and West have experienced above average improvement in per capita personal income during the past decade, economic growth has not been uniformly distributed among the states in the region. The disparities in per capita personal income among southern states have actually widened during the past decade. Growth in the states of the Northeast has been somewhat slower, but clearly positive. In no way can the economic experience of the northern region during the past decade be characterized by such terms as "decline" or "crisis." To do so is a gross misinterpretation of changes in measures of relative position. The northern industrial states continue to lead the nation in terms of per capita personal income and other measures of economic well-being. Even with the higher growth trends in the Sunbelt states, the leading position of the northern states is expected to remain secure into the next century.

Economic Trends and the Flow of Federal Funds

With increasing public awareness of the changing regional trends in economic growth and wealth concentration, there has developed widespread interest in the impact of regional federal spending patterns. Often used in the discussion of this issue is the concept of a federal spending/taxes ratio, comparing per capita federal spending in each state to per capita federal taxes collected in each state. Using that ratio, it has been argued that the federal budget results in a massive flow of wealth from the northeastern states to the southern and western states.

On that basis, it has been suggested that all aspects of federal spending--and particularly formula grants programs--be adjusted to return dollars to the Frostbelt states. Since most formulas are based on some combination of population and economic variables, advocates of policies to shift federal spending toward the North have argued to eliminate variables, such as per capita income, which tend to favor the Sunbelt.

The data do seem to support the notion of an uneven pattern of spending and tax collections. In the Northeast region, federal spending is only 94 cents for every dollar in taxes collected in the region; in the South, spending is $1.12 for every dollar of taxes collected; and in the West, spending is $1.06 for every tax dollar.

However, the regional bias of federal spending may be more apparent than real. Several related problems--intra-regional variations, localization of spending, and localization of tax payments--need to be examined before using such regional comparisons as the basis for altering federal spending policy.

For one thing, there are greater imbalances in federal spending versus taxes within each region than between regions. While the Northeast composite data show more per capita taxes than spending, five of the nine states actually experienced flows in the opposite direction: more per capita spending than taxes. In the South, the fastest growing state, Texas, experienced a spending/taxes ratio smaller than the northeastern states' ratio--only 93 cents for every dollar of taxes.

Furthermore, the data showing the distribution of federal spending per capita among the states are misleading for two reasons: (1) they do not take into account the difference between federal spending for local benefit and federal spending for national benefit; and (2) they overlook the economic links between states.

Another flaw in interpretations of the spending/taxes ratio is the equation of taxes per capita and personal income taxes. They are not the same. Taxes per capita for each state and region are total federal taxes collected in the states, divided by population. Federal taxes include corporate income taxes, tariffs on imports, and excise taxes, in addition to personal income taxes. The inclusion of corporate taxes deserves special note: since corporate taxes are typically reported in the state of the corporation's headquarters (regardless of where they were derived), and since those headquarters offices are concentrated in the northeastern states, the reporting of corporate income taxes exaggerates the per capita tax collections of the Northeast region.

Therefore, instead of examining total federal expenditure by state, it is more useful to focus on one important part of federal spending--federal grants and transfers to state and local government units. State and local government units in the New England and Middle Atlantic regions were above the national average for per capita federal expenditures of this type. Forty-eight percent of all federal expenditure flowing to state and local government in 1979 went to states in the North and Northeast regions--the Frostbelt.

In summary, there seem to be no firm data to support the allegation of a Sunbelt bias in federal spending. Interpretations showing such a bias through spending/taxation ratios evaporate when considerations of national benefit programs, indirect economic impacts, and corporate tax payment practices are added to the interpretation.

The data on federal grants to states indicate that the Frostbelt states are getting a proportionate share of direct federal aid. There is no evidence of a pro-Sunbelt bias in the distribution of federal grants to states and local governments.

Three Cases Involving Education Funds

Formula grant programs based on population and income variables are an important part of the fiscal relationship between the federal and state governments in the area of education. Use of per capita income differences as one criterion governing the distribution of education funds is an implicit acknowledgement of the important role education plays in stimulating economic growth.

The inclusion of per capita income in these formulas was adopted as policy many years ago when the poverty and economic stagnation of the South created the presumption of need for extra federal help to fund basic services. The bias of federal spending toward the low income states was seen as a stimulus for economic growth and development.

Today, proponents of formula revisions argue that the situation is reversed--the South and West are enjoying rapid growth and prosperity, while the northern industrial states are in economic decline. Therefore, they contend, policies should be adopted to shift federal grant funds away from the Sunbelt states and toward the Frostbelt states. Since southern and some western states have lower per capita income levels than the northern industrial states, it is necessary to remove per capita income from grant formulas in order to shift dollars to the North.

Three federal formula grant programs are examined here, and comparisons made of the distribution of resources under current formulas (with per capita income factors) and under proposed formulas (without per capita income).

- The Vocational Education Program provided some $475 million in 1980 to state education agencies for construction of facilities and operation of vocational training programs. A ratio of state per capita personal income and United States average per capita income is a factor in the distribution formula.

Eliminating the per capita income adjustment, however, does not uniformly shift dollars from the Sunbelt to the Frostbelt. While some Frostbelt states, like New York, New Jersey, and Massachusetts, would gain by the elimination of the income adjustment, others (Maine, New Hampshire, Ohio. Indiana, and Michigan) would lose. California--a sunbelt state--would gain more than any state in the nation; Texas would also be a "winner." In all regions, some states would gain, while others would lose funds as a result of the revision.

- Under the Rehabilitation Act Basic Support Grants program, the federal government last year provided $817 million to states for diagnosis, evaluation, counseling, training, vocational rehabilitation, and related services to handicapped individuals. The formula for distributing funds uses an allotment ratio to adjust population shares for per capita income differences. As with the Vocational Education grant, the effect of removing the income adjustment from the formula runs contrary to the Frostbelt versus Sunbelt theory. In the Frostbelt, Maine, Vermont, Ohio, and Indiana would lose funds if the income adjustment were eliminated. In the Sunbelt, Maryland, Virginia, Texas, and California would gain funds.

- A third grant, the Public Library Services Program, provides funds ($62 million in 1980) for operating library services and programs, especially to inadequately served areas and special populations. In this formula, elimination of income considerations would hurt more Frostbelt states than it would help.

Conclusions

The proponents of elimination of income adjustments from federal funding formulas have attempted to cast the argument in terms of a Frostblet versus Sunbelt conflict. Yet each element of the formula revision argument is based on myth:

- The idea of a massive population migration into the Sunbelt is a myth which overlooks the population growth in almost every state and the small degree of shift in relative population distribution.

- The idea of economic decline in the North, coupled with widespread prosperity in the South, is a myth which overlooks gains in per capita income and employment in every state, and which ignores the continued deficiency of per capita income levels in the South.

- The idea of a pro-Sunbelt bias in federal spending is a myth based on misinterpretation of spending and tax collection data.

- Finally, the idea that elimination of income adjustments from funding formulas would simply transfer funds from Sunbelt to

Frostbelt is a myth which ignores the numerous states in every region which would lose funds by formula revision.

The issue of including per capita income considerations in education funding formulas is an issue that transcends regions. The real issue is whether or not we wish to use education funding as a policy tool to respond to the needs of the lower income states in every region.

Per capita income considerations were included in the formula for education grant distribution originally because the relative poverty status of some states was relevant to the educational goals of the program. Educational opportunity is an important vehicle for promoting economic development of the relatively poor areas of the nation.

While the income gap between the rich and poor states is narrower now than in the past, it still exists and is significant. As long as that gap persists, there is no basis for removing per capita income from the formulas.

Notes

[1]Where possible, this study uses United States census classifications of regions. They are: New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont); Middle Atlantic (New Jersey, New York, Pennsylvania); East North Central (Illinois, Indiana, Michigan, Ohio, Wisconsin); West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota); South Atlantic (Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia); East South Central (Alabama, Kentucky, Mississippi, Tennessee); West South Central (Arkansas, Louisiana, Oklahoma, Texas); Mountain (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming); and Pacific (Alaska, California, Hawaii, Oregon, Washington).

The terms, North, Northeast, South and West will also be used to identify regions. North corresponds to the East North Central and West North Central census regions; Northeast corresponds to the Middle Atlantic and New England census regions; South refers to the South Atlantic, East South Central, and West South Central census regions; and West refers to the Mountain and Pacific census regions.

The Sunbelt states are those in the South and West; the Frostbelt states are in the North and Northeast.

BIBLIOGRAPHY

Havemann, Joel and Rochelle L. Stanfield. "Federal Spending: The North's Loss Is The Sunbelt's Gain." National Journal, vol. 8 (June 26, 1976), no. 26, pp. 874-891.

Havemann, Joel and Rochelle L. Stanfield. "Neutral Federal Policies Are Reducing Frostbelt-Sunbelt Spending Imbalances." National Journal, vol. 13 (February 7, 1981), no. 6, pp. 233-236.

Jusenius, C. L. and L. C. Ledebur. A Myth in the Making: The Southern Economic Challenge and Northern Economic Decline. Washington: United States Department of Commerce, November 1976.

United States Bureau of the Census. Government Finances in 1978-79, Series 6F 79, no. 5. Washington: United States Government Printing Office, 1980.

United States Bureau of the Census. "1980 Census of Population Supplementary Reports," Series PC80-S1, no. 1. Washington: United States Government Printing Office, 1981.

United States Bureau of the Census. Statistical Abstract of the United States: 1980 (101st edition). Washington: U. S. Government Printing Office, 1980.

United Stated Department of Commerce, Bureau of Economic Analysis. "1980 State Per Capita Personal Income." Series BEA 81-25, Washington: United States Government Printing Office, 1981.

United States Office of Management and Budget. Catalog of Federal Domestic Assistance. Washington: United States Government Printing Office, 1980.

United States Resources Council. 1972 OBERS Projections. Washington: United States Government Printing Office, 1972.

"The Second War Between the States." Business Week, May 17, 1976, pp. 92-114.

"The South Today." Time Magazine, vol. 108, September 27, 1976, pp. 25-32.

The Southeastern Regional Council for Educational Improvement is a nonprofit, interstate organization created and governed by the Chief State School Officers of ten Southeastern states.

BOARD OF DIRECTORS

Honorable Wayne Teague
Superintendent of Education
Alabama

Honorable Don R. Roberts
Director of Education
Arkansas

Honorable Ralph D. Turlington
Commissioner of Education
Florida

Honorable Charles McDaniel
Superintendent of Schools
Georgia

Honorable Raymond Barber
Superintendent of Public Instruction
Kentucky

Honorable J. Kelly Nix
Superintendent of Public Instruction
Louisiana

Honorable Charles E. Holladay
Superintendent of Education
Mississippi

Honorable A. Craig Phillips
Superintendent of Public Instruction
North Carolina

Honorable Charles G. Williams
Superintendent of Education
South Carolina

Honorable Robert L. McElrath
Commissioner of Education
Tennessee

STEERING COMMITTEE MEMBERS

Erskine Murray, Alabama
D.L. Pilkinton, Arkansas
Marshall L. Frinks, Florida
Titus Singletary, Georgia
Clyde Caudill, Kentucky
Hugh I. Peck, Louisiana
John Ethridge, Mississippi
Reeves McGlohon, North Carolina
Robert R. Hill, South Carolina
Howard McNeese, Tennessee